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SUBJECT: FRENCH GOVERNMENT PRIVATIZES TOLL-ROAD COMPANIES

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1. SUMMARY. The government announced winning-bidders for its stake in toll-ways companies, ASF, APRR and SANEF December 14. The sell-off, which aroused widespread overseas bid interest, encountered political opposition in the National Assembly. Bidders were selected on their price offers, but also on a number of commitments. The government will use privatization proceeds of 14.8 billion euros to reduce the public debt (10 billion euros) and to fund highway infrastructure investment (4.8 billion euros). END SUMMARY.

Selection of Bidders was a Long Process

2. Breaking through years of debate over toll-road privatization, one of the first major decisions of the new center-right government of Prime Minister Dominique de Villepin was to sell off the government's stake in the national toll-road system, which is held both directly and through its share of "Autoroutes de France" (ADF). On July 18, 2005, the government floated a call for bids for its holdings in three toll-way companies - a 50.4% stake in South-of-France motorways "Autoroutes du Sud de la France" (ASF), a 70.2% stake in motorways between Paris, and Rhine and Rhone rivers "Autoroutes Paris Rhin Rhone" (APRR) and a 75.7% stake in Northern and Eastern highways "SANEF". On August 22, at the end of the first tour of the bidding process, 18 French and Foreign investors made preliminary offers, including Spanish groups Albertis, ACS and Cintra, Autostrade of Italy, and Macquarie and Transurban of Australia.

3. On December 14, Finance Minister Thierry Breton and Transportation Minister Dominique Perben announced their choices:

-ASF: The French construction group Vinci, which already held a 23% stake in ASF and was the only bidder, for its offer price of 50 euros per ASF share. The price will be raised to 51 euros once ASF is granted the concession for the Lyon-Balagny section of the A89 highway. ASF has 2,943 km (1,828 miles) of toll-roads and revenues of 2.8 billion euros, and market capitalization of 11.5 billion euros.

-APRR: The French construction group Eiffage, which already owns one transport firm, Cofiroute, in South West France, and its Australian partner, the infrastructure group Macquarie for their offer price of 61 euros per APRR share. The Spanish Cintra was not selected although its offer was the highest (62 euros per share). APRR has 2,205 km (1,370 miles) of toll-roads, revenues of 1.84 billion, and market capitalization of 6.8 billion euros.

-SANEF: the consortium led by Albertis of Spain and composed of the French insurer Axa, state-owned financial Institution Caisse des Depots et Consignations, CNP Assurances, Financiere et Fonciere de Participations and Predica, the Credit Agricole's life insurance company, for its price of 58 euros per SANEF share. SANEF has 1,684km (1,027 miles) of toll-roads, toll revenues of 1.25 billion euros, and a market capitalization of 5.2 billion euros.

As Politicians Opposed the Privatization . . .

4. Opposition politicians, members of the ruling UMP party and head of the center-right UDF party Francois Bayrou denounced the privatization, saying it was "a strategic error" to sell "family's jewels" for short-term financial gain, and claimed it could hurt efforts to increase French use of public highways. Breton responded in November that "aside from the proposed price, the government will consider the social and industrial projects bidders envisage in their offers, as well as their guarantees to maintain the quality of public service."

. . . the Government was More Selective

15. Bidders were required to provide guarantees that they would respect existing concession contracts, maintain the quality of public service including safety and security, and contribute to the expansion of employment in the highway sector. Selected bidders, which include construction groups, had to accept dispositions aimed at preserving competitive bidding on contracts for highway construction and services. They will also have to follow the December 11, 2005 Competition Council's opinion that privatized highways must maintain a separate legal identity from acquiring companies' other activities. Selected bidders also committed to respect existing agreements and to continue pending negotiations with employees regarding future layoffs or job transfers due to automation of toll-collections.

The Effective Sale will Take Place in early 2006

16. Sale contracts will be signed after companies have informed and consulted employees' representatives, giving details on future plans and commitments. In line with the stock market regulations, selected companies will also have to offer a guarantee on share price, allowing small shareholders who wish to sell their shares to get the same price as the government and ADF. Decrees authorizing the privatization of ASF, APRR and SANEF will be published when all procedures are completed, and the Commission of Participations and Transfers gives the green light. The effective sale of Government and ADF stakes in ASF, APRR and SANEF is expected to take place early 2006.

Government Expects to Raise 14.8 billion euros in Proceeds

17. The government estimated proceeds from the privatization of ASF, APRR and SANEF at 14.8 billion euros, twice the 2005 total privatization proceeds and the bulk of proceeds planned for 2006. (Other 2006 proceeds will include 1 billion euros from the sale of EDF shares to EDF employees, and less than 1 billion euros from the sale of shares of Paris Airports "Aéroports de Paris" (ADP) when it opens its capital.)

18. About 10 billion euros in proceeds from privatization of highways will be used to reduce the public debt (66% of GDP) and the rest to fund infrastructure investment handled by AFITF ("Agence de Financement des Infrastructures de Transports en France.") Because of general protest against the government objective to earmark the bulk of proceeds to the reduction of the public debt, the government increased the portion of proceeds attributed to AFITF from 1 billion euros to 4.8 billion euros.

ASF, APRR and SANEF will be 100% Investor-Owned

19. At the end of the privatization process, ASF, APRR and SANEF will be completely privatized. They are already publicly traded companies subject to corporate regulation and accounting standards. Until now, the government has retained a majority interest and controlled the appointment of the boards of directors.

But Government maintains a role

110. The concession law lays down some rules for adjusting toll rates for inflation, but other aspects of toll setting and expenditures will be set in negotiations with the government every five years. Breton confirmed that the government would remain in control over the toll-road rates after the highway companies are privatized.

Comments

111. The government has made the right choice in accelerating its privatization program, but largely for the wrong reasons. It was primarily motivated by the short-term appeal of reducing the public debt, rather than the longer-term benefits that would come from modernizing the toll-road system. By including contract provisions designed to maintain jobs and guarantees of "public service," the government has made clear that it still views toll-roads as something of a regulated monopoly, over which it will continue to maintain a measure of control.
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